

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Mattawan	County Van Buren
Fiscal Year End June 30, 2006	Opinion Date November 30, 2006	Date Audit Report Submitted to State December 18, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

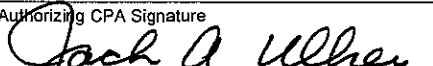
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:		Enclosed	Not Required (enter a brief justification)	
Financial Statements		<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input type="checkbox"/>	Not necessary	
Other (Describe)		<input checked="" type="checkbox"/>	Single Audit Reports	
Certified Public Accountant (Firm Name) Ullrey & Company		Telephone Number (269) 382-5027		
Street Address 401 North Sage Street		City Kalamazoo	State MI	Zip 49006
Authorizing CPA Signature 		Printed Name JACK A ULLREY		License Number 1101009309

Village of Mattawan

Van Buren County, Michigan

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

Year ended June 30, 2006

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MANAGEMENT'S DISCUSSION AND ANALYSIS

Village of Mattawan
MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Village of Mattawan's (the Village) financial performance provides a narrative overview of the Village's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the Village's financial statements.

FINANCIAL HIGHLIGHTS

- The Village's total net assets decreased by \$38,660 (1 percent) as a result of this year's activities. Net assets of the governmental activities increased by \$93,127, and net assets of the business-type activities decreased by \$131,787.
- Of the \$6,962,845 total net assets reported, \$1,066,143 (15 percent) is available to be used to meet the Village's ongoing obligations to its citizens and customers.
- The General Fund's unreserved fund balance at the end of the fiscal year was \$338,522, which represents 62 percent of the actual total General Fund expenditures for the current fiscal year.

Overview of the financial statements

The Village's basic financial statements are comprised of four parts: management's discussion and analysis, the basic financial statements, required supplementary information, and an optional section that presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Village:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Village's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the Village, reporting the Village's operations in more detail than the government-wide financial statements.
 - Governmental fund statements tell how general government services, like public safety, were financed in the short-term as well as what remains for future spending.
 - Proprietary fund statements offer short- and long-term financial information about the activities the government operates like a business, such as the sewer and water systems.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The financial statements are followed by a section of required supplementary information that further explains and supports the information in the financial statements.

Government-wide financial statements

The government-wide financial statements report information about the Village as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the Village's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the Village's net assets and how they have changed. Net assets (the difference between the Village's assets and liabilities) is one way to measure the Village's financial health, or position.

- Over time, increases or decreases in the Village's net assets are an indicator of whether its financial health is improving or deteriorating, respectively.
- To assess the overall health of the Village, you need to consider additional nonfinancial factors such as changes in the Village's property tax base and the condition of the Village's capital assets.

The government-wide financial statements are divided into three categories:

- *Governmental activities* - Most of the Village's basic services are included here, such as police protection and general government. Property taxes and state grants finance most of these activities.
- *Business-type activities* - The Village charges fees to customers to help it cover the costs of certain services it provides. The Village's sewer and water systems are reported here.
- *Component units* - The Village includes other entities in its report - the Mattawan Downtown Development Authority and the Mattawan Local Development Finance Authority. Although legally separate, these "component units" are important because the Village is financially accountable for them.

Fund financial statements

The fund financial statements provide more detailed information about the Village's most significant funds - not the Village as a whole. Funds are accounting devices that the Village uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by state law and by bond agreements.
- The Village Council establishes other funds to control and manage money for particular purposes (like the Drug Forfeitures Fund) or to show that it is properly using certain taxes and other revenues (like motor fuel taxes collected for the street funds).

The Village has two kinds of funds:

1. *Governmental funds.* Most of the Village's basic services are included in governmental funds, which focus on (1) how cash, and other financial assets that can be readily converted to cash, flows in and out and, (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the Village's programs. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship between them.
2. *Proprietary funds.* Services for which the Village charges customers a fee are generally reported in proprietary funds. Proprietary funds, like the government-wide statements, provide both long- and short-term financial information.
 - In fact, the Village's enterprise funds (one type of proprietary fund) are the same as its business-type activities, but provide more detail and additional information, such as cash flows.
 - The Village uses internal service funds (the other type of proprietary fund) to report activities that provide services for the Village's other programs and activities. The Village's internal service funds are its DPW Building and Equipment Fund and Police Motor Pool Fund that manage the Village's fleet of vehicles and equipment.

Village of Mattawan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE

Net assets. Total net assets at the end of the fiscal year were \$6,962,845, a decrease of 1 percent compared to the prior year. Of this total, \$2,773,278 is invested in capital assets and \$3,123,424 is restricted for various purposes. Consequently, unrestricted net assets were \$1,066,143, or 15 percent of the total.

Condensed financial information
Net Assets

	Governmental activities		Business-type activities		Totals	
	2006	2005	2006	2005	2006	2005
Current and other assets	\$ 984,005	\$ 844,368	\$ 3,468,381	\$ 3,485,487	\$ 4,452,386	\$ 4,329,855
Capital assets	<u>1,100,244</u>	<u>1,110,045</u>	<u>9,580,084</u>	<u>9,820,144</u>	<u>10,680,278</u>	<u>10,980,189</u>
Total assets	<u>2,084,249</u>	<u>1,954,413</u>	<u>13,048,465</u>	<u>13,305,631</u>	<u>15,132,664</u>	<u>15,310,044</u>
Long term and outstanding	729,000	736,000	7,178,000	7,298,000	7,907,000	8,029,000
Other liabilities	<u>81,516</u>	<u>37,807</u>	<u>181,308</u>	<u>177,846</u>	<u>262,819</u>	<u>215,653</u>
Total liabilities	<u>810,516</u>	<u>773,807</u>	<u>7,359,308</u>	<u>7,475,846</u>	<u>8,169,819</u>	<u>8,244,653</u>
Net assets						
Invested in capital assets, net of related debt	371,244	374,045	2,402,084	2,527,144	2,773,278	2,901,189
Restricted	502,332	456,774	2,621,092	2,498,433	3,123,424	2,955,207
Unrestricted	<u>400,157</u>	<u>349,787</u>	<u>665,986</u>	<u>809,208</u>	<u>1,066,143</u>	<u>1,158,995</u>
Total net assets	<u>\$ 1,273,733</u>	<u>\$ 1,180,606</u>	<u>\$ 5,689,162</u>	<u>\$ 5,834,785</u>	<u>\$ 6,962,845</u>	<u>\$ 7,015,391</u>

Changes in net assets. The Village's total revenues were \$1,933,517. Approximately 49 percent of the Village's revenues come from utility charges while property taxes and state shared revenue account for a combined 23 percent of total revenues.

The total cost of all the Village's programs, covering a wide range of services, totaled \$2,000,943. Approximately 67 percent of the Village's costs relate to the provision of utility services. Public safety and public works costs account for 14 percent and 10 percent of the Village's total costs, respectively.

Village of Mattawan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

FINANCIAL ANALYSIS OF THE VILLAGE AS A WHOLE (Continued)

Condensed financial information
Changes in net assets

	<i>Governmental activities</i>		<i>Business-type activities</i>		<i>Totals</i>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Program revenues:						
Charges for services	\$ 51,800	\$ 32,612	\$ 900,450	\$ 872,730	\$ 952,250	\$ 905,342
Operating grants and contributions	313,329	314,885	-	-	313,329	314,885
Capital grants and contributions	-	-	148,054	93,415	148,054	93,415
General revenues:						
Property taxes	243,014	219,947	-	-	243,014	219,947
State shared revenue	195,407	197,651	-	-	195,407	197,651
Unrestricted interest income	16,864	9,971	53,171	34,381	70,035	44,352
Miscellaneous	11,428	20,943	-	-	11,428	20,943
Total revenues	831,842	796,009	1,101,675	1,000,526	1,933,517	1,796,535
Expenses:						
Legislative	5,097	5,383	-	-	5,097	5,383
General government	139,149	113,941	-	-	139,149	113,941
Public safety	279,542	285,674	-	-	279,542	285,674
Public works	235,649	204,370	-	-	235,649	204,370
Culture and recreation	15,322	11,028	-	-	15,322	11,028
Community and economic development	29,162	9,019	-	-	29,162	9,019
Interest	34,794	35,837	-	-	34,794	35,837
Sewer	-	-	845,037	1,056,398	845,037	1,056,398
Water	-	-	388,425	279,293	388,425	279,293
Total expenses	738,715	665,252	1,233,462	1,335,691	1,972,177	2,000,943
Increase (decrease) in net assets	\$ 93,127	\$ 130,757	\$ (131,787)	\$ (335,165)	\$ (38,660)	\$ (204,408)

Governmental activities. Governmental activities increased the Village's net assets by \$93,127 compared to a \$130,757 increase in the prior year. While revenues increased by \$35,833, expenses increased by \$73,463 (11 percent). The increase in expenses is primarily the result of employing a manager in the current year. General revenues continue to exceed the net cost of providing governmental services.

The cost of all governmental activities this year was \$738,715. After subtracting the direct charges to those who directly benefited from the programs (\$51,800), and operating and capital grants and contributions (\$313,329), the "public benefit" portion covered by property taxes, state revenue sharing, and other general revenues was \$373,586.

MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Business-type activities. Business-type activities decreased the Village's net assets by \$131,787 primarily because customer charges are not set to fully finance depreciation costs.

FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS

Governmental funds. As of the end of the current fiscal year, the Village's governmental funds reported combined ending fund balances of \$840,854, an increase of \$71,751 in comparison with the prior year.

The General Fund is the chief operating fund of the Village. At the end of the fiscal year, unreserved fund balance was \$338,522, which represents 62 percent of the actual total General Fund expenditures for the current fiscal year. The fund balance increased by \$26,193 during the fiscal year due to a \$23,000 increase in property tax revenue.

The Major Street Fund experienced an increase in fund balance of \$37,356 during the fiscal year because current year operating grants from the State exceeded the costs of maintaining the Village's major streets and no construction costs were incurred in the current year. The Major Street Fund has a fund balance of \$257,188 that is restricted for street preservation costs.

Proprietary funds. The Sewer Fund experienced a decrease in net assets of \$132,122 because customer charges are not set to fully cover depreciation costs. Total net assets are \$4,179,253 at year end of which \$539,095 is unrestricted.

The Water Fund experienced a decrease in net assets of \$14,521 because customer charges are not set to fully cover depreciation costs. Total net assets are \$1,495,003 at year end of which \$112,035 is unrestricted.

General Fund budgetary highlights

The Village amended the General Fund budget to increase total expenditures by \$86,282 to reflect anticipated cost increases.

Revenues were \$45,528 more than budgeted. General Fund expenditures were \$66,947 less than the amounts appropriated, which resulted in a \$112,475 positive budget variance, and a \$26,193 increase in fund balance compared to a budgeted \$86,282 decrease.

Village of Mattawan
MANAGEMENT'S DISCUSSION AND ANALYSIS (Continued)

Capital assets and debt administration

Capital assets.

The Village's investment in capital assets for its governmental and business-type activities as of June 30, 2006, amounts to \$10,680,278 (net of accumulated depreciation). This investment includes a broad range of assets including land, buildings, police equipment, and sewer and water facilities. The decrease in the Village's net investment in capital assets for the current fiscal year was \$127,911. The net investment in capital assets was decreased \$2,801 by governmental activities and decreased \$125,110 by business-type activities.

	<u>Governmental activities</u>	<u>Business-type activities</u>	<u>Totals</u>
Infrastructure	\$ 109,675	\$ 9,545,285	\$ 9,654,960
Buildings and improvements	825,676	-	825,676
Equipment	136,893	-	136,893
Land	<u>28,000</u>	<u>34,749</u>	<u>62,749</u>
Totals	<u>\$ 1,100,244</u>	<u>\$ 9,580,034</u>	<u>\$ 10,680,278</u>

Major capital asset events during the current fiscal year included the following:

- The DPW Building and Equipment Fund, an internal service fund, acquired several pieces of equipment totaling \$33,196.
- The Police Motor Pool acquired two used police cars for a total cost of \$11,000.
- The Water Fund incurred costs of \$78,200 related to its well house improvement project.

More detailed information about the Village's capital assets is presented in Note 5 of the notes to the basic financial statements.

Long-term debt.

At the end of the fiscal year, the Village had bonds payable outstanding in the amount of \$7,907,000 which represents a decrease of \$122,000 or 2 percent. These bonds are secured solely by specific revenue sources (i.e., revenue bonds).

More detailed information about the Village's long-term liabilities is presented in Note 8 of the notes to the basic financial statements.

Economic condition and outlook

The Village of Mattawan (2000 census population of 2,536) is primarily a residential community located in Van Buren County, Michigan. The village's proximity to the Kalamazoo Metropolitan Area and several major roadways, including Interstate 94, has helped spur recent commercial/industrial development. New commercial/industrial property and economic development activities are expected over the next few years that will be beneficial to the community as a whole.

The Village of Mattawan is committed to the goal of financial conservatism and, through this philosophy, the Village will develop plans to ensure economic development and infrastructure maintenance/development. The Village will continue taking progressive steps to ensure proper utilization of resources and reinvestment of revenues to ensure the Village is operating at its peak efficiency.

The Village's Water Fund, an enterprise operation, will experience increased expenditures to comply with the Environmental Protection Agency's regulations for arsenic levels in drinking water. The Village intends to build an arsenic removal plant that is expected to cost approximately \$2.2 million. The project will be financed through a federal grant and the issuance of bonds through the federal government.

Contacting the Village's financial management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview of the Village's finances and to demonstrate the Village's accountability for the resources it receives. Questions regarding any information provided in this report or requests for additional financial information should be addressed to the Village Hall at 24221 Front Avenue, Mattawan, Michigan 49071.



Jack A. Ullrey, CPA

Valerie K. Watts, CPA
Regan C. Thorpe, CPA

INDEPENDENT AUDITORS' REPORT

Village Council
Village of Mattawan, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely-presented component units, each major fund, and the aggregate remaining fund information of the Village of Mattawan, Michigan, as of June 30, 2006, and for the year then ended, which collectively comprise the Village's financial statements, as listed in the contents. These financial statements are the responsibility of the Village of Mattawan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Mattawan, Michigan, as of June 30, 2006, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have issued our report dated November 30, 2006, on our consideration of the Village of Mattawan, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information, on pages i through vii and 23 through 25, respectively, are not a required part of the basic financial statements but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Village of Mattawan, Michigan's basic financial statements. The supplementary information, as listed in the contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Ulley & Company

November 30, 2006

BASIC FINANCIAL STATEMENTS

Village of Mattawan
STATEMENT OF NET ASSETS
June 30, 2006

	<i>Primary government</i>		
	<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>
ASSETS			
Current assets:			
Cash	\$ 886,009	\$ 721,278	\$ 1,607,287
Restricted cash	-	1,078,789	1,078,789
Receivables	110,079	163,928	274,007
Internal balances	(12,083)	12,083	-
Total current assets	<u>984,005</u>	<u>1,976,078</u>	<u>2,960,083</u>
Noncurrent assets:			
Connection fees receivable	-	1,492,303	1,492,303
Capital assets, net of depreciation	<u>1,100,244</u>	<u>9,580,034</u>	<u>10,680,278</u>
Total noncurrent assets	<u>1,100,244</u>	<u>11,072,337</u>	<u>12,172,581</u>
Total assets	<u>2,084,249</u>	<u>13,048,415</u>	<u>15,132,664</u>
LIABILITIES			
Current liabilities:			
Payables	81,516	181,303	262,819
Bonds payable	<u>7,000</u>	<u>119,000</u>	<u>126,000</u>
Total current liabilities	<u>88,516</u>	<u>300,303</u>	<u>388,819</u>
Noncurrent liabilities:			
Bonds payable	<u>722,000</u>	<u>7,059,000</u>	<u>7,781,000</u>
Total liabilities	<u>810,516</u>	<u>7,359,303</u>	<u>8,169,819</u>
NET ASSETS			
Invested in capital assets, net of related debt	371,244	2,402,034	2,773,278
Restricted for:			
Public safety	7,450	-	7,450
Public works	494,882	-	494,882
Debt service	-	2,621,092	2,621,092
Unrestricted	<u>400,157</u>	<u>665,986</u>	<u>1,066,143</u>
Total net assets	<u>\$ 1,273,733</u>	<u>\$ 5,689,112</u>	<u>\$ 6,962,845</u>

Component units	
<i>Downtown Development Authority</i>	<i>Local Development Finance Authority</i>
\$ 8,773	\$ 43,007
-	-
-	-
-	-
<u>8,773</u>	<u>43,007</u>
-	-
-	-
-	-
<u>8,773</u>	<u>43,007</u>
-	-
-	-
-	-
<u>8,773</u>	<u>43,007</u>
-	-
-	-
-	-
-	-
<u>8,773</u>	<u>43,007</u>
\$ 8,773	\$ 43,007

See notes to the financial statements

Village of Mattawan
STATEMENT OF ACTIVITIES
Year ended June 30, 2006

Functions/Programs	<u>Expenses</u>	<u>Program revenues</u>		
		<u>Charges for services</u>	<u>Operating grants and contributions</u>	<u>Capital grants and contributions</u>
Primary government:				
Governmental activities:				
Legislative	\$ 5,097	\$ -	\$ -	\$ -
General government	139,149	-	-	-
Public safety	279,542	38,778	38,033	-
Public works	235,649	13,022	255,296	-
Community and economic development	29,162	-	-	-
Culture and recreation	15,322	-	20,000	-
Interest on long-term debt	34,794	-	-	-
Total governmental activities	<u>738,715</u>	<u>51,800</u>	<u>313,329</u>	<u>-</u>
Business-type activities				
Sewer	845,037	581,293	-	93,516
Water	388,425	319,157	-	54,538
Total business-type activities	<u>1,233,462</u>	<u>900,450</u>	<u>-</u>	<u>148,054</u>
Total primary government	<u>\$ 1,972,177</u>	<u>\$ 952,250</u>	<u>\$ 313,329</u>	<u>\$ 148,054</u>
Component units:				
Downtown Development Authority	\$ -	\$ -	\$ -	\$ -
Local Development Finance Authority	-	-	-	-
Total component units	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:
Property taxes
State shared revenue
Unrestricted Interest income
Miscellaneous

Total general revenues

Change in net assets

Net assets - beginning

Net assets - ending

<i>Net (expenses) revenues and changes in net assets</i>				
<i>Primary government</i>			<i>Component Units</i>	
<i>Governmental activities</i>	<i>Business-type activities</i>	<i>Totals</i>	<i>Downtown Development Authority</i>	<i>Local Development Finance Authority</i>
\$ (5,097)		\$ (5,097)		
(139,149)		(139,149)		
(202,731)		(202,731)		
32,669		32,669		
(29,162)		(29,162)		
4,678		4,678		
(34,794)		(34,794)		
(373,586)		(373,586)		
	\$ (170,228)	(170,228)		
	(14,730)	(14,730)		
	(184,958)	(184,958)		
(373,586)	(184,958)	(558,544)		
			\$ -	\$ -
			-	-
			-	-
243,014	-	243,014	8,730	24,285
195,407	-	195,407	-	-
16,864	53,171	70,035	43	160
11,428	-	11,428	-	-
466,713	53,171	519,884	8,773	24,445
93,127	(131,787)	(38,660)	8,773	24,445
1,180,606	5,820,899	7,001,505	-	18,562
\$ 1,273,733	\$ 5,689,112	\$ 6,962,845	\$ 8,773	\$ 43,007

See notes to the financial statements

Village of Mattawan
BALANCE SHEET - governmental funds
June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
ASSETS				
Cash	\$ 300,060	\$ 238,937	\$ 241,577	\$ 780,574
Due from other funds	-	567	735	1,302
Receivables	<u>75,713</u>	<u>25,868</u>	<u>8,498</u>	<u>110,079</u>
Total assets	<u>\$ 375,773</u>	<u>\$ 265,372</u>	<u>\$ 250,810</u>	<u>\$ 891,955</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Payables	\$ 31,704	\$ 8,184	\$ 5,666	45,554
Due to other funds	<u>5,547</u>	<u>-</u>	<u>-</u>	<u>5,547</u>
Total liabilities	<u>37,251</u>	<u>8,184</u>	<u>5,666</u>	<u>51,101</u>
Fund balances:				
Unreserved	338,522	257,188	-	595,710
Unreserved, reported in nonmajor: Special revenue funds	<u>-</u>	<u>-</u>	<u>245,144</u>	<u>245,144</u>
Total fund balances	<u>338,522</u>	<u>257,188</u>	<u>245,144</u>	<u>840,854</u>
Total liabilities and fund balances	<u>\$ 375,773</u>	<u>\$ 265,372</u>	<u>\$ 250,810</u>	<u>\$ 891,955</u>
Total fund balances - total governmental funds				\$ 840,854
Amounts reported for <i>governmental activities</i> in the statement of net assets (page 5) are different because:				
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.				311,144
Internal service funds are used by management to charge costs of fleet management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the statement of net assets.				<u>121,735</u>
Net assets of <i>governmental activities</i>				<u>\$ 1,273,733</u>

See notes to the financial statements

Village of Mattawan**STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - governmental funds**

Year ended June 30, 2006

	<u>General</u>	<u>Major Street</u>	<u>Nonmajor governmental funds</u>	<u>Total governmental funds</u>
REVENUES				
Property taxes	\$ 243,014	\$ -	\$ -	\$ 243,014
Federal grants	20,058	-	-	20,058
State grants	202,160	156,665	62,242	421,067
Contribution from local unit	-	-	37,679	37,679
Fines and forfeitures	9,108	-	-	9,108
Licenses and permits	27,917	-	-	27,917
Interest	10,056	5,302	1,139	16,497
Other	56,135	-	-	56,135
Total revenues	<u>568,448</u>	<u>161,967</u>	<u>101,060</u>	<u>831,475</u>
EXPENDITURES				
Legislative	5,097	-	-	5,097
General government	149,758	-	-	149,758
Public safety	288,982	-	2,092	291,074
Public works	34,021	124,611	86,266	244,898
Community and economic development	29,162	-	-	29,162
Culture and recreation	16,291	-	-	16,291
Capital outlay	18,944	-	4,500	23,444
Total expenditures	<u>542,255</u>	<u>124,611</u>	<u>92,858</u>	<u>759,724</u>
NET CHANGE IN FUND BALANCES	26,193	37,356	8,202	71,751
FUND BALANCES - BEGINNING	<u>312,329</u>	<u>219,832</u>	<u>236,942</u>	<u>769,103</u>
FUND BALANCES - ENDING	<u>\$ 338,522</u>	<u>\$ 257,188</u>	<u>\$ 245,144</u>	<u>\$ 840,854</u>
Net change in fund balances - total governmental funds				\$ 71,751
Amounts reported for <i>governmental activities</i> in the statement of activities (page 6) are different because:				
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the costs of those assets are allocated over their estimated useful lives as depreciation expense.				
Add: assets acquired				23,569
Less: provision for depreciation				(19,888)
The net revenues of the internal service funds are reported with governmental activities.				<u>17,695</u>
Change in net assets of <i>governmental activities</i>				<u>\$ 93,127</u>

See notes to the financial statements

Village of Mattawan
STATEMENT OF NET ASSETS - proprietary funds
June 30, 2006

	<u>Business-type activities - enterprise funds</u>			<u>Governmental activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
ASSETS				
Current assets:				
Cash	\$ 620,875	\$ 100,403	\$ 721,278	\$ 105,436
Restricted cash	964,433	114,356	1,078,789	-
Receivables:				
Accounts	74,502	39,426	113,928	-
Connection fees	50,000	-	50,000	-
Due from other funds	19,432	2,757	22,189	24,962
Total current assets	<u>1,729,242</u>	<u>256,942</u>	<u>1,986,184</u>	<u>130,398</u>
Noncurrent assets:				
Connection fees receivable	1,492,303	-	1,492,303	-
Capital assets, net of depreciation	<u>7,703,422</u>	<u>1,876,612</u>	<u>9,580,034</u>	<u>789,100</u>
Total noncurrent assets	<u>9,195,725</u>	<u>1,876,612</u>	<u>11,072,337</u>	<u>789,100</u>
Total assets	<u>10,924,967</u>	<u>2,133,554</u>	<u>13,058,521</u>	<u>919,498</u>
LIABILITIES				
Current liabilities:				
Payables	167,290	14,013	181,303	35,962
Due to other funds	8,424	16,538	24,962	17,944
Bonds payable	<u>85,000</u>	<u>34,000</u>	<u>119,000</u>	<u>7,000</u>
Total current liabilities	<u>260,714</u>	<u>64,551</u>	<u>325,265</u>	<u>60,906</u>
Noncurrent liabilities:				
Bonds payable	<u>6,485,000</u>	<u>574,000</u>	<u>7,059,000</u>	<u>722,000</u>
Total liabilities	<u>6,745,714</u>	<u>638,551</u>	<u>7,384,265</u>	<u>782,906</u>
NET ASSETS				
Invested in capital assets, net of related debt	1,133,422	1,268,612	2,402,034	60,100
Restricted for debt service	2,506,736	114,356	2,621,092	-
Unrestricted	<u>539,095</u>	<u>112,035</u>	<u>651,130</u>	<u>76,492</u>
Total net assets	<u>\$ 4,179,253</u>	<u>\$ 1,495,003</u>	<u>5,674,256</u>	<u>\$ 136,592</u>
Adjustment to reflect the consolidation of internal service fund balances related to enterprise funds.			<u>14,856</u>	
Net assets of business-type activities			<u>\$ 5,689,112</u>	

See notes to the financial statements

Village of Mattawan

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS - *proprietary funds*

Year ended June 30, 2006

	<u>Business-type activities - enterprise funds</u>			<u>Governmental activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
OPERATING REVENUES				
Charges for services	\$ 577,546	\$ 303,238	\$ 880,784	\$ 148,432
Other	3,747	15,919	19,666	-
Total operating revenues	581,293	319,157	900,450	148,432
OPERATING EXPENSES				
Public works	293,117	287,733	580,850	
Depreciation	247,273	76,870	324,143	51,391
Cost of interfund services provided	-	-	-	55,832
Total operating expenses	540,390	364,603	904,993	107,223
OPERATING INCOME	40,903	(45,446)	(4,543)	41,209
NONOPERATING REVENUES (EXPENSES)				
Gain on disposal of capital assets	-	-	-	11,885
Interest income:				
Connection fees	64,018	-	64,018	-
Investment	45,534	7,637	53,171	367
Connection fees	29,498	54,538	84,036	-
Interest expense	(312,075)	(31,250)	(343,325)	(34,794)
Total nonoperating revenues (expenses)	(173,025)	30,925	(142,100)	(22,542)
CHANGE IN NET ASSETS	(132,122)	(14,521)	(146,643)	18,667
NET ASSETS - BEGINNING	4,311,375	1,509,524		117,925
NET ASSETS - ENDING	\$ 4,179,253	\$ 1,495,003		\$ 136,592
Adjustment to reflect the consolidation of internal service fund net revenues related to enterprise funds.			14,856	
Change in net assets of <i>business-type activities</i> (page 6)			\$ (131,787)	

See notes to the financial statements

Village of Mattawan
STATEMENT OF CASH FLOWS - proprietary funds
Year ended June 30, 2006

	<u>Business-type activities - Enterprise funds</u>			<u>Governmental activities</u>
	<u>Sewer</u>	<u>Water</u>	<u>Totals</u>	<u>Internal Service</u>
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 569,490	\$ 311,304	\$ 880,794	\$ 132,311
Payments to suppliers	(272,432)	(206,502)	(478,934)	(26,773)
Payments to employees	(17,844)	(63,912)	(81,756)	(6,161)
Net cash provided by operating activities	<u>279,214</u>	<u>40,890</u>	<u>320,104</u>	<u>99,377</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Proceeds from dispositions of capital assets	-	-	-	18,171
Collection of connection fee principal	74,281	54,538	128,819	-
Collection of connection fee interest	64,018	-	64,018	-
Acquisition of capital assets	-	(84,033)	(84,033)	(44,196)
Principal payments on capital debt	(81,000)	(34,000)	(115,000)	(7,000)
Interest payments on capital debt	(313,256)	(29,940)	(343,196)	(34,794)
Net cash used in capital and related financing activities	<u>(255,957)</u>	<u>(93,435)</u>	<u>(349,392)</u>	<u>(67,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES				
Interest received	<u>45,534</u>	<u>7,637</u>	<u>53,171</u>	<u>367</u>
NET INCREASE (DECREASE) IN CASH	<u>68,791</u>	<u>(44,908)</u>	<u>23,883</u>	<u>31,925</u>
CASH - BEGINNING (including \$1,069,307 in restricted accounts)	<u>1,516,517</u>	<u>259,667</u>	<u>1,776,184</u>	<u>73,511</u>
CASH - ENDING (including \$1,078,789 in restricted accounts)	<u>\$ 1,585,308</u>	<u>\$ 214,759</u>	<u>\$ 1,800,067</u>	<u>\$ 105,436</u>
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 40,903	\$ (45,446)	\$ (4,543)	\$ 41,209
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation expense	247,273	76,870	324,143	51,391
Changes in assets and liabilities:				
Receivables	(9,572)	(4,518)	(14,090)	-
Due from other funds	(2,231)	(3,335)	-	(16,121)
Payables	610	3,429	4,039	22,898
Due to other funds	2,231	13,890	16,121	-
Net cash provided by operating activities	<u>\$ 279,214</u>	<u>\$ 40,890</u>	<u>\$ 325,670</u>	<u>\$ 99,377</u>

See notes to the financial statements

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Village of Mattawan, Michigan (the Village), conform to U.S. generally accepted accounting principles (hereinafter referred to as generally accepted accounting principles) as applicable to governmental units. The following is a summary of the significant accounting policies.

a) Reporting entity:

In accordance with generally accepted accounting principles and Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, these financial statements present the Village. The criteria established by the GASB for determining the reporting entity includes oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included.

Discretely-presented component units:

Local Development Finance Authority and Downtown Development Authority

Each component units' governing body is appointed by the Village Council and their debt remains with the Village. Separate financial statements for the component units have not been issued as management believes that these financial statements, including disclosures, contain complete information so as to constitute a fair presentation of each component unit.

b) Government-wide and fund financial statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the Village. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by property taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

c) Measurement focus, basis of accounting, and financial statement presentation:

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village generally considers revenues to be available if they are expected to be collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

State grants, licenses and permits, charges for services, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable only when cash is received by the Village.

The Village reports the following major governmental funds:

The General Fund is the Village's primary operating fund. It accounts for all financial resources of the Village, except those required to be accounted for in another fund. Revenues are primarily derived from property taxes and state shared revenue.

The Major Street Fund accounts for the resources of state gas and weight tax revenues that are restricted for expenditures related to maintaining and improving the Village's major streets.

The Village reports the following major enterprise funds:

The Sewer Fund accounts for the activities of the Village's sewage collection systems.

The Water Fund accounts for the activities of the Village's water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private sector guidance for their business-type activities and enterprise funds, subject to the same limitations. The Village has elected not to follow subsequent private-sector standards.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

c) Measurement focus, basis of accounting, and financial statement presentation (continued):

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the proprietary funds relate to charges to customers for sales and services. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

d) Assets, liabilities, and net assets or equity:

i) Bank deposits - Cash is considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less from the date of acquisition.

ii) Receivables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." No allowance for uncollectible accounts has been recorded as the Village considers all receivables to be fully collectible.

iii) Prepaid items - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in the government-wide financial statements.

iv) Capital assets - Capital assets, which include property, equipment, and infrastructure assets (e.g., streets and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The Village has elected to use the prospective method of accounting for infrastructure assets whereby it will capitalize its infrastructure assets as acquired on or after July 1, 2003, as permitted by GASB No. 34.

Capital assets are depreciated using the straight-line method over the following useful lives:

Buildings and improvements	10 - 50 years
Equipment	3 - 20 years
Sewer and water systems	50 years

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

d) Assets, liabilities, and net assets or equity (continued):

v) *Compensated absences* (vacation and sick leave) - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. A liability for unpaid accumulated vacation and sick leave has been recorded for the portion due to employees upon separation from service with the Village. Vested compensated absences are accrued when earned in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

vi) *Fund equity* - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

vii) *Property tax revenue recognition* - Property taxes are levied as of July 1 on property values assessed as of December 31 of the prior year. The billings are due on or before August 15, after which time the bill becomes delinquent and penalties and interest may be assessed by the Village. Property tax revenue is recognized in the year for which taxes have been levied and become available. The Village levy date is July 1, and, accordingly, the total levy is recognized as revenue in the current year.

NOTE 2 - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY:

Budgetary information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. The budget document presents information by fund, function, department, and line-item. The legal level of budgetary control adopted by the Village Council is the functional level. All annual appropriations lapse at the end of the fiscal year. During the fiscal year ended June 30, 2006, the Village did not incur expenditures that were significantly in excess of the amounts appropriated.

NOTE 3 - CASH:

At June 30, 2006, cash is classified in the accompanying statement of net assets as follows:

Cash:	
Governmental activities	\$ 886,009
Business-type activities	721,278
Restricted cash:	
Business-type activities	1,078,789
Component units	<u>51,780</u>
Total cash	<u>\$ 2,737,856</u>

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 3 - CASH (Continued):

At June 30, 2006, cash consists of the following:

Cash on hand	\$ 200
Deposits with financial institutions	<u>2,737,656</u>
Total	<u>\$ 2,737,856</u>

Deposits with financial institutions - State statutes and the Village's investment policy authorize the Village to make deposits in the accounts of federally-insured banks, credit unions, and savings and loan associations that have an office in Michigan. The Village's deposits are in accordance with statutory authority.

Custodial credit risk is the risk that, in the event of the failure of a financial institution, the Village will not be able to recover its deposits. Deposits are exposed to custodial credit risk if they are not covered by depository insurance and are uncollateralized. As of June 30, 2006, \$2,596,684 of the Village's bank balances of \$2,796,684 was exposed to custodial credit risk because it was uninsured. The Village believes that it is impractical to insure all bank deposits due to the amounts of the deposits and the limits of FDIC insurance. As a result, the Village evaluates each financial institution with which it deposits funds and assesses the risk level of each institution. Only the institutions with an acceptable estimated risk level are used as depositories.

The Village maintains individual and pooled cash accounts for all of its funds and its component units. Due to use of pooled deposits, it is not practicable to allocate insured and uninsured portions of certain bank balances between the primary government and its component units. The insured portion of the bank balance has been allocated entirely to the primary government.

NOTE 4 - RECEIVABLES:

Receivables as of year end for the Village's individual major and nonmajor funds, in the aggregate, are as follows:

<i>Fund</i>	<i>Accounts</i>	<i>Connection fees</i>	<i>Inter-governmental</i>	<i>Totals</i>
Governmental activities:				
General	\$ -	\$ -	\$ 75,713	\$ 75,713
Major Street	-	-	25,868	25,868
Nonmajor governmental	-	-	8,498	8,498
Totals	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 110,079</u>	<u>\$ 110,079</u>
Business-type activities:				
Sewer	\$ 74,502	\$ 1,542,303	\$ -	\$ 1,616,805
Water	<u>39,426</u>	<u>-</u>	<u>-</u>	<u>39,426</u>
Totals	<u>\$ 113,928</u>	<u>\$ 1,542,303</u>	<u>\$ -</u>	<u>\$ 1,656,231</u>
Noncurrent portion	<u>\$ -</u>	<u>\$ 1,492,303</u>	<u>\$ -</u>	<u>\$ 1,492,303</u>

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS:

Capital asset activity for the year ended June 30, 2006, was as follows:

	<u>Beginning balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending balance</u>
Governmental activities:				
Capital assets not being depreciated - land	\$ 28,000	\$ -	\$ -	\$ 28,000
Capital assets being depreciated:				
Buildings	896,180	-	-	896,180
Land improvements	46,800	1,754	-	48,554
Equipment	113,628	55,011	(1,711)	166,928
Vehicles	310,459	11,000	(20,952)	300,507
Infrastructure	125,343	-	-	125,343
Subtotal	<u>1,492,410</u>	<u>67,765</u>	<u>(22,663)</u>	<u>1,537,512</u>
Less accumulated depreciation for:				
Buildings	(86,950)	(22,039)	-	(108,989)
Land improvements	(7,254)	(2,815)	-	(10,069)
Equipment	(74,086)	(10,630)	1,711	(83,005)
Vehicles	(232,674)	(29,528)	14,665	(247,537)
Infrastructure	(9,401)	(6,267)	-	(15,668)
Subtotal	<u>(410,365)</u>	<u>(71,279)</u>	<u>16,376</u>	<u>(465,268)</u>
Total capital assets being depreciated, net	<u>1,082,045</u>	<u>(3,514)</u>	<u>(6,287)</u>	<u>1,072,244</u>
Governmental activities capital assets, net	<u>\$ 1,110,045</u>	<u>\$ (3,514)</u>	<u>\$ (6,287)</u>	<u>\$ 1,100,244</u>

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 5 - CAPITAL ASSETS (Continued):

	<i>Beginning balance</i>	<i>Increases</i>	<i>Decreases</i>	<i>Ending balance</i>
Business-type activities:				
Capital assets not being depreciated - land	\$ 34,749	\$ -	\$ -	\$ 34,749
Capital assets being depreciated:				
Sewer system	9,437,133	-	-	9,437,133
Water system	2,742,731	84,033	-	2,826,764
Subtotal	12,179,864	84,033	-	12,263,897
Less accumulated depreciation for:				
Sewer system	(1,486,439)	(247,273)	-	(1,733,712)
Water system	(908,030)	(76,870)	-	(984,900)
Subtotal	(2,394,469)	(324,143)	-	(2,718,612)
Total capital assets being depreciated, net	9,785,395	(240,110)	-	9,545,285
Business-type activities capital assets, net	\$ 9,820,144	\$ (240,110)	\$ -	\$ 9,580,034

Depreciation expense was charged to functions of the Village as follows:

Governmental activities:	
General government	\$ 5,443
Public safety	4,143
Public works	9,450
Recreation	852
Depreciation on capital assets of internal service funds	51,391
Total governmental activities	\$ 71,279
Business-type activities:	
Sewer	\$ 247,273
Water	76,870
Total business-type activities	\$ 324,143

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES:

Noncurrent liabilities at June 30, 2006, are comprised of the following:

Governmental activities:

\$750,000 2002 Building Authority general obligation bonds - payable in annual installments ranging from \$6,000 to \$35,000, plus interest at 4.75%; final payment due December 2041 \$ 729,000

Business-type activities:

\$755,000 1977 Water Supply System revenue bonds - payable in annual installments ranging from \$25,000 to \$30,000, plus interest at 5.00%; final payment due January 2016 \$ 300,000

\$330,000 1996 Water Supply System Junior Lien revenue bonds - payable in annual installments ranging from \$3,000 to \$14,000, plus interest at 5.00%; final payment due July 2036 308,000

\$7,000,000 1998 Sanitary Sewer System revenue bonds - payable in annual installments ranging from \$73,000 to \$403,000, plus interest at 4.75%; final payment due July 2037 6,570,000

Total business-type activities noncurrent liabilities \$ 7,178,000

Noncurrent liability activity for the year ended June 30, 2006, was as follows:

	<i>Beginning balance</i>	<i>Additions</i>	<i>Reductions</i>	<i>Ending balance</i>	<i>Amounts due within one year</i>
Governmental activities:					
2002 general obligation bonds	<u>\$ 736,000</u>	<u>\$ -</u>	<u>\$ (7,000)</u>	<u>\$ 729,000</u>	<u>\$ 7,000</u>
Business-type activities:					
1977 revenue bonds	\$ 330,000	\$ -	\$ (30,000)	\$ 300,000	\$ 30,000
1996 revenue bonds	312,000	-	(4,000)	308,000	4,000
1998 revenue bonds	<u>6,651,000</u>	<u>-</u>	<u>(81,000)</u>	<u>6,570,000</u>	<u>85,000</u>
Total business-type activities noncurrent liabilities	<u>\$ 7,293,000</u>	<u>\$ -</u>	<u>\$ (115,000)</u>	<u>\$ 7,178,000</u>	<u>\$ 119,000</u>

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 6 - NONCURRENT LIABILITIES (Continued):

Debt service requirements at June 30, 2006, were as follows:

	<i>Governmental activities</i>		<i>Business-type activities</i>	
	<i>Principal</i>	<i>Interest</i>	<i>Principal</i>	<i>Interest</i>
Year ended June 30:				
2007	\$ 7,000	\$ 34,461	\$ 119,000	\$ 339,706
2008	7,000	34,129	124,000	333,850
2009	7,000	33,796	130,000	327,821
2010	8,000	33,440	135,000	321,396
2011	9,000	33,036	140,000	314,775
2012 - 2016	49,000	158,531	798,000	1,464,545
2017 - 2021	65,000	145,137	828,000	1,270,775
2022 - 2026	89,000	126,943	1,057,000	1,047,616
2027 - 2031	122,000	102,125	1,345,000	763,051
2032 - 2036	156,000	69,113	1,717,000	400,365
2037 - 2041	175,000	29,094	785,000	34,789
2042 - 2046	35,000	831	-	-
	<u>\$ 729,000</u>	<u>\$ 800,636</u>	<u>\$ 7,178,000</u>	<u>\$ 6,618,689</u>

NOTE 7 - RESTRICTED CASH:

As a condition of individual debt issues, the Village is required to maintain certain separate cash reserves. At June 30, 2006, all required reserves have been properly funded and are as follows:

Business-type activities:

Sewer Fund:

1998 Sewer Supply System revenue bonds:

Principal and interest redemption accounts	\$ 500,714
Bond reserve account	422,000
Repair and reconstruction account	41,719

964,433

Water Fund:

1977 Water Supply System revenue bonds:

Principal and interest redemption account	12,125
Bond reserve account	48,759

1996 Water Supply System Junior Lien revenue bonds:

Principal and interest redemption account	31,048
Bond reserve account	22,424

114,356

\$ 1,078,789

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 8 - INTERFUND RECEIVABLES AND PAYABLES:

At June 30, 2006, the composition of interfund balances, as reported in the fund financial statements, is as follows:

<u>Fund</u>	<u>Receivables</u>	<u>Fund</u>	<u>Payables</u>
Sewer	\$ 17,944	DPW Building and Equipment	\$ 17,944
DPW Building and Equipment	24,962	Sewer	8,424
		Water	16,538
			24,962
Sewer	2,757	General	2,757
Water	1,488	General	1,488
Major Street	567		
Local Street	735		
	1,302	General	1,302
Totals	\$ 48,453	Totals	\$ 48,453

In 2002, the Sewer Fund, an enterprise fund, advanced \$86,810 to the DPW Building and Equipment Fund, an internal service fund, to finance the acquisition of a dump truck. The advance will be repaid in annual installments of \$18,303 that include interest at 2%, through 2007. Other interfund balances are the result of temporary cash flow assistance.

NOTE 9 - RISK MANAGEMENT:

The Village is exposed to various risks of loss to general liability, property and casualty, workers' compensation, and employee health and medical claims. The risks of loss arising from general liability up to \$2,000,000, building contents, workers' compensation, employee medical, and casualty are managed through purchased commercial insurance. For all risks of loss, there have been no significant reductions in insurance coverage from coverage provided in prior years. Also, in the past three years, settlements did not exceed insurance coverage.

NOTE 10 - CONSTRUCTION CODE ACT:

A summary of construction code enforcement transactions for the year ended June 30, 2006, is as follows:

Revenues	\$ 5,129
Expenses	(3,897)
Excess of revenues over expenses	\$ 1,232

Village of Mattawan
NOTES TO FINANCIAL STATEMENTS (Continued)

NOTE 11 - DEFINED CONTRIBUTION PENSION PLAN:

On October 1, 1996, the Village adopted a defined contribution pension plan, specifically referred to as the Village of Mattawan Employee Retirement Plan (the Plan). In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. Full-time employees are eligible to participate after satisfactorily completing the required probationary period of 90 days of employment. The Village contributes 3% of each qualified employee's earnings to the Plan. Qualified employees are required to contribute 3% of their earnings as a condition of participation in the Plan.

The Village's contributions for each employee (and interest allocated to the employee's account) are fully vested after five years of continuous service. Village contributions for, and interest forfeited by, employees who leave employment before five years of service are used to reduce the Village's current period contribution requirements. The Village is not a trustee of the Plan, nor is the Village responsible for investment management of plan assets. Michigan State statute assigns the authority to establish and amend benefit provisions to the Village Council.

The Village and the Plan participants each made their required contributions in the amount of \$9,439 for the year ended June 30, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

Village of Mattawan
BUDGETARY COMPARISON SCHEDULE - General Fund
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
Property taxes	\$ 228,170	\$ 228,170	\$ 243,014	\$ 14,844
Federal grant	15,100	15,100	20,058	4,958
State grants	201,700	201,700	202,160	460
Fines and forfeitures	13,000	13,000	9,108	(3,892)
Licenses and permits	17,400	17,400	27,917	10,517
Interest	7,600	7,600	10,056	2,456
Other	39,950	39,950	56,135	16,185
Total revenues	<u>522,920</u>	<u>522,920</u>	<u>568,448</u>	<u>45,528</u>
EXPENDITURES				
Legislative - Village Council	<u>5,500</u>	<u>5,500</u>	<u>5,097</u>	<u>403</u>
General government:				
Administration	83,500	101,671	87,024	14,647
Clerk	29,420	38,689	34,480	4,209
Village hall	<u>27,805</u>	<u>30,674</u>	<u>28,254</u>	<u>2,420</u>
Total general government	<u>140,725</u>	<u>171,034</u>	<u>149,758</u>	<u>21,276</u>
Public safety:				
Police department	316,090	323,812	285,085	38,727
Inspections	<u>1,800</u>	<u>3,897</u>	<u>3,897</u>	<u>-</u>
Total public safety	<u>317,890</u>	<u>327,709</u>	<u>288,982</u>	<u>38,727</u>
Public works:				
Public works department	11,000	23,887	19,944	3,943
Street lighting	<u>15,000</u>	<u>15,309</u>	<u>14,077</u>	<u>1,232</u>
Total public works	<u>26,000</u>	<u>39,196</u>	<u>34,021</u>	<u>5,175</u>
Community and economic development:				
Planning	<u>9,075</u>	<u>29,769</u>	<u>29,162</u>	<u>607</u>

Village of Mattawan**BUDGETARY COMPARISON SCHEDULE - General Fund (Continued)**

Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
EXPENDITURES (Continued)				
Culture and recreation	<u>\$ 12,230</u>	<u>\$ 16,970</u>	<u>\$ 16,291</u>	<u>\$ 679</u>
Capital outlay	<u>11,500</u>	<u>19,024</u>	<u>18,944</u>	<u>80</u>
Total expenditures	<u>522,920</u>	<u>609,202</u>	<u>542,255</u>	<u>66,947</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>(86,282)</u>	<u>26,193</u>	<u>112,475</u>
FUND BALANCES - BEGINNING	<u>312,329</u>	<u>312,329</u>	<u>312,329</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 312,329</u>	<u>\$ 226,047</u>	<u>\$ 338,522</u>	<u>\$ 112,475</u>

Village of Mattawan
BUDGETARY COMPARISON SCHEDULE - Major Street Fund
Year ended June 30, 2006

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance favorable (unfavorable)</u>
REVENUES				
State grants	\$ 191,000	\$ 191,000	\$ 156,665	\$ (34,335)
Interest	<u>1,200</u>	<u>1,200</u>	<u>5,302</u>	<u>4,102</u>
Total revenues	<u>192,200</u>	<u>192,200</u>	<u>161,967</u>	<u>(30,233)</u>
EXPENDITURES				
Public works:				
Preservation	130,555	140,802	71,691	69,111
Winter maintenance	38,355	43,484	27,782	15,702
Traffic service	1,000	11,687	11,579	108
Administration	<u>5,290</u>	<u>15,158</u>	<u>13,559</u>	<u>1,599</u>
Total expenditures	<u>175,200</u>	<u>211,131</u>	<u>124,611</u>	<u>86,520</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	17,000	(18,931)	37,356	56,287
OTHER FINANCING USES				
Transfer out - Local Street Fund	<u>(17,000)</u>	<u>(17,000)</u>	<u>-</u>	<u>17,000</u>
NET CHANGE IN FUND BALANCES	-	(35,931)	37,356	73,287
FUND BALANCES - BEGINNING	<u>219,832</u>	<u>219,832</u>	<u>219,832</u>	<u>-</u>
FUND BALANCES - ENDING	<u>\$ 219,832</u>	<u>\$ 183,901</u>	<u>\$ 257,188</u>	<u>\$ 73,287</u>

SUPPLEMENTARY INFORMATION

Village of Mattawan

COMBINING BALANCE SHEET - nonmajor governmental funds

June 30, 2006

	<u>Special revenue funds</u>				<u>Total nonmajor governmental funds</u>
	<u>Local Street</u>	<u>Drug Forfeitures</u>	<u>Justice Training</u>	<u>Metro Act</u>	
ASSETS					
Cash	\$ 208,205	\$ 6,283	\$ 1,597	\$ 25,492	\$ 241,577
Receivables	8,498	-	-	-	8,498
Due from other funds	735	-	-	-	735
Total assets	<u>\$ 217,438</u>	<u>\$ 6,283</u>	<u>\$ 1,597</u>	<u>\$ 25,492</u>	<u>\$ 250,810</u>
LIABILITIES AND FUND EQUITY					
Liabilities:					
Payables	\$ 5,236	\$ 430	\$ -	\$ -	\$ 5,666
Fund balances:					
Unreserved	<u>212,202</u>	<u>5,853</u>	<u>1,597</u>	<u>25,492</u>	<u>245,144</u>
Total liabilities and fund balances	<u>\$ 217,438</u>	<u>\$ 6,283</u>	<u>\$ 1,597</u>	<u>\$ 25,492</u>	<u>\$ 250,810</u>

Village of Mattawan**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - nonmajor governmental funds**

Year ended June 30, 2006

	Special revenue funds				Total nonmajor governmental funds
	Local Street	Drug Forfeitures	Justice Training	Metro Act	
REVENUES					
State grants	\$ 51,465	\$ -	\$ 1,290	\$ 9,487	\$ 62,242
Contribution from local unit	37,679	-	-	-	37,679
Interest	1,008	36	-	95	1,139
Other	-	-	-	-	-
Total revenues	90,152	36	1,290	9,582	101,060
EXPENDITURES					
Public safety	-	-	2,092	-	2,092
Public works	84,884	-	-	1,382	86,266
Capital outlay	-	-	-	4,500	4,500
Total expenditures	84,884	-	2,092	5,882	92,858
NET CHANGE IN FUND BALANCES	5,268	36	(802)	3,700	8,202
FUND BALANCES - BEGINNING	206,934	5,817	2,399	21,792	236,942
FUND BALANCES - ENDING	\$ 212,202	\$ 5,853	\$ 1,597	\$ 25,492	\$ 245,144

Village of Mattawan**COMBINING STATEMENT OF NET ASSETS - internal service funds**

June 30, 2006

	<u>DPW Building and Equipment</u>	<u>Police Motor Pool</u>	<u>Totals</u>
ASSETS			
Current assets:			
Cash	\$ 75,798	\$ 29,638	\$ 105,436
Due from other funds	<u>24,962</u>	<u>-</u>	<u>24,962</u>
Total current assets	100,760	29,638	130,398
Noncurrent assets:			
Capital assets, net of depreciation	<u>761,784</u>	<u>27,316</u>	<u>789,100</u>
Total assets	<u>862,544</u>	<u>56,954</u>	<u>919,498</u>
LIABILITIES			
Current liabilities:			
Payables	34,874	1,088	35,962
Due to other funds	17,944	-	17,944
Bonds payable	<u>7,000</u>	<u>-</u>	<u>7,000</u>
Total current liabilities	<u>59,818</u>	<u>1,088</u>	<u>60,906</u>
Noncurrent liabilities:			
Bonds payable	<u>722,000</u>	<u>-</u>	<u>722,000</u>
Total liabilities	<u>781,818</u>	<u>1,088</u>	<u>782,906</u>
NET ASSETS			
Invested in capital assets, net of related debt	32,784	27,316	60,100
Unrestricted	<u>47,942</u>	<u>28,550</u>	<u>76,492</u>
Total net assets	<u>\$ 80,726</u>	<u>\$ 55,866</u>	<u>\$ 136,592</u>

Village of Mattawan**COMBINING STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - internal service funds**

Year ended June 30, 2006

	<u>DPW Building and Equipment</u>	<u>Police Motor Pool</u>	<u>Totals</u>
OPERATING REVENUES			
Charges for services:			
Equipment rental	\$ 64,708	\$ 25,452	\$ 90,160
Building rental	58,272	-	58,272
Total operating revenues	<u>122,980</u>	<u>25,452</u>	<u>148,432</u>
OPERATING EXPENSES			
Repairs and maintenance:			
Equipment	28,567	18,343	46,910
DPW Building	8,922	-	8,922
Depreciation	48,072	3,319	51,391
Total operating expenses	<u>85,561</u>	<u>21,662</u>	<u>107,223</u>
OPERATING INCOME	<u>37,419</u>	<u>3,790</u>	<u>41,209</u>
NONOPERATING REVENUES (EXPENSES)			
Interest income	235	132	367
Interest expense	(34,794)	-	(34,794)
Gain on disposal of capital assets	2,509	9,376	11,885
Total nonoperating revenues (expenses)	<u>(32,050)</u>	<u>9,508</u>	<u>(22,542)</u>
CHANGE IN NET ASSETS	5,369	13,298	18,667
NET ASSETS - BEGINNING	<u>75,357</u>	<u>42,568</u>	<u>117,925</u>
NET ASSETS - ENDING	<u>\$ 80,726</u>	<u>\$ 55,866</u>	<u>\$ 136,592</u>

Village of Mattawan

COMBINING STATEMENT OF CASH FLOWS - internal service funds

Year ended June 30, 2006

	<u>DPW Building and Equipment</u>	<u>Police Motor Pool</u>	<u>Totals</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from interfund services provided	\$ 106,859	\$ 25,452	\$ 132,311
Payments to suppliers	(9,926)	(16,847)	(26,773)
Payments to employees	(5,197)	(964)	(6,161)
Net cash provided by operating activities	<u>91,736</u>	<u>7,641</u>	<u>99,377</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Proceeds from dispositions of capital assets	2,509	15,662	18,171
Acquisition of capital assets	(33,196)	(11,000)	(44,196)
Principal payments on capital debt	(7,000)	-	(7,000)
Interest payments on capital debt	(34,794)	-	(34,794)
Net cash used in capital and related financing activities	<u>(72,481)</u>	<u>4,662</u>	<u>(67,819)</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received	<u>235</u>	<u>132</u>	<u>367</u>
NET INCREASE IN CASH	<u>19,490</u>	<u>12,435</u>	<u>31,925</u>
CASH - BEGINNING	<u>56,308</u>	<u>17,203</u>	<u>73,511</u>
CASH - ENDING	<u>\$ 75,798</u>	<u>\$ 29,638</u>	<u>\$ 105,436</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 37,419	\$ 3,790	\$ 41,209
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation	48,072	3,319	51,391
Changes in assets and liabilities:			
Increase in due from other funds	(16,121)	-	(16,121)
Increase in payables	<u>22,366</u>	<u>532</u>	<u>22,898</u>
Net cash provided by operating activities	<u>\$ 91,736</u>	<u>\$ 7,641</u>	<u>\$ 99,377</u>

FEDERAL AWARDS

Village of Mattawan**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS**

Year ended June 30, 2006

<u>Federal grantor/pass-through grantor/program title</u>	<u>Federal CFDA number</u>	<u>Federal expenditures</u>
U.S. Department of Agriculture: Community Facilities Loans	10.766	\$729,000
U.S. Department of Justice: School Resource Officer	16.710	<u>20,058</u>
		<u>\$749,058</u>

- NOTES: 1) The schedule of expenditures of federal awards is prepared on the accrual basis of accounting.
- 2) Federal expenditures include a loan payable to the U.S. Department of Agriculture in the amount of \$729,000.

Village of Mattawan
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year ended June 30, 2006

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Village of Mattawan.
2. No reportable conditions were identified during the audit of the financial statements.
3. No instances of noncompliance material to the financial statements of Village of Mattawan were disclosed during the audit.
4. No reportable conditions were identified during the audit of the major federal award program.
5. The auditors' report on compliance for the major federal award program for Village of Mattawan expresses an unqualified opinion.
6. Audit findings relative to the major federal award program for Village of Mattawan are reported in Part C of this schedule.
7. The program tested as a major program follows:

<u>Federal agency</u>	<u>Program name</u>	<u>CFDA #</u>
U.S. Department of Agriculture	Community Facilities Loans	10.766

8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Village of Mattawan was determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

NONE

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDIT

NONE



Jack A. Ullrey, CPA

Valerie K. Watts, CPA
Regan C. Thorpe, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF GENERAL
PURPOSE FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**Village Council
Village of Mattawan, Michigan**

We have audited the financial statements of Village of Mattawan, Michigan (the Village), as of and for the year ended June 30, 2006, and have issued our report thereon dated November 30, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Village's statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal control over financial reporting

In planning and performing our audit, we considered the Village's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ullrey & Company

November 30, 2006



Jack A. Ullrey, CPA

Valerie K. Watts, CPA
Regan C. Thorpe, CPA

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS**

**Village Council
Village of Mattawan**

Compliance

We have audited the compliance of Village of Mattawan, Michigan (the Village), with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to its major federal program for the year ended June 30, 2006. The Village's major federal program is its Community Facilities Loan Program. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of the Village's management. Our responsibility is to express an opinion on the Village's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Village's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Village's compliance with those requirements.

In our opinion, the Village complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal control over compliance

The management of the Village is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Village's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133 AND SCHEDULE OF
EXPENDITURES OF FEDERAL AWARDS (Continued)**

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level, the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operations that we consider to be a material weakness.

This report is intended for the information of management, federal awarding agencies, and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Ullrey & Company

November 30, 2006